



9 February 1978

ohc-78-677
MFR

MEMORANDUM FOR THE RECORD

SUBJECT: Taxability of Allowances

1. This morning I attended a meeting of the Interagency Committee on Overseas Benefits and Allowances, which was called to discuss Treasury's new proposals to tax the allowances paid to government civilians overseas. The meeting was chaired by John Thomas and was attended by representatives of all twenty of the member agencies. There were also four representatives from the Treasury Department -- two from the Office of Tax Policy and two from the Office of International Affairs.

2. Our first notification that the issue had been raised again came last Friday. Treasury notified State that the Ways and Means Committee had asked for the Administration's position on Sections 911 and 912, and Treasury had concluded that the position should ---

a. provide for the taxation of housing costs up to 20% of each individuals annual salary.

b. make the cost-of-living allowances in Alaska and Hawaii taxable to the recipient,

c. require annual estimates of the "cost" of Section 912 in terms of revenue lost to the IRS.

They dropped an earlier proposal concerning home leave travel.

3. As usual, some of the positions taken by Treasury were based on misconceptions. For example, they took the position that many government employees overseas were being paid part of their compensation through allowances, that these allowances were not covered in annual appropriations, and that this constituted a circumvention of the appropriations system. It didn't take long to put that to rest. They also seemed to be convinced that the average employee would not object to paying \$200 to \$300 in taxes,

as a form of rent, in lieu of having to pay full cost of quarters in the U.S. And, finally, the Treasury representatives said that IRS had a problem because Section 912 applied to most employees overseas, but not all, and they named Agricultural and Treasury attaches as two types of employees not covered. The representatives from Agriculture insisted that they were incorrect, and the Treasury spokesmen backed away. The discussion was an active one, and the meeting with the Treasury representatives concluded with the Committee maintaining its earlier position, i.e., unanimous opposition to any change in Section 912.

4. One difficulty we have is one we have had in the past. That is, there are one or two members who feel that perhaps we should offer up the housing allowance on the assumption that the Congress would then leave everything else alone, and on the further assumption that, if we try to hold out for retention of the status quo, Congress may tax more than just the housing. Treasury is using this argument to make it appear that they are really trying to do us a favor. They also point to statements in the Committee report, acknowledging that free housing overseas represents a benefit, and try to represent that as an agreement that it is compensation and should be taxed.

5. At the conclusion of the meeting John Thomas established a drafting committee to write a new position paper, on the assumption that representatives of the Committee would attempt to represent the Committee at the Ways and Means hearings and with OMB. The drafting committee will include members from State, DoD, Civil Service Commission, and CIA. Each agency is also encouraged to send letters to the Secretary of the Treasury and to OMB.



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ROUTING AND RECORD SHEET

OLC-78-0677

SUBJECT: (Optional)

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TO: (Officer designation, room number, and building)	DATE		OFFICER'S INITIALS	COMMENTS (Number each comment, show from whom to whom. Draw a line across column after each comment.)
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